

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AID-05 CIAE-00 EB-08
FRB-01 INR-10 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
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FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC
SECSTATE WASHDC 4351
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

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USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: BANK OF ENGLAND QUARTERLY BULLETIN

SUMMARY: THE BANK OF ENGLAND'S LATEST QUARTERLY BULLETIN
ADVISES A CAUTIOUS APPROACH TO BUDGETARY STIMULUS. CON-
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CERN IS VOICED ABOUT THE NEED TO MAINTAIN A CURRENT AC-
COUNT SURPLUS. THE BANK FORESEES AN EARLY PICK-UP IN ECO-
NOMIC GROWTH, BUT MAKES NO STRONGER STATEMENT THAN THE
CURRENT ACCOUNT MAY BE IN SURPLUS IN 1978. OIL EXPOR-
TERS' SURPLUSES WERE SMALLER IN 1977 THAN IN 1976 AND A
SMALLER SHARE WAS INVESTED IN THE U.S. END SUMMARY.

1. IN ITS QUARTERLY ASSESSMENT, THE BANK OF ENGLAND LOOKS BEYOND THIS YEAR INTO 1979 IN ORDER TO DESCRIBE THE SORT OF ENVIRONMENT WHICH CURRENT FISCAL AND MONETARY POLICY DECISIONS WILL ATTEMPT TO INFLUENCE.

2. IN THE BANK'S VIEW THE OUTLOOK FOR 1979 IS FAR FROM CERTAIN. NEVERTHELESS, A STRONG WARNING IS ISSUED ABOUT THE INFLATIONARY CONSEQUENCES OF A "LARGE FISCAL STIMULUS" IN THE CONTEXT OF AN ECONOMY ALREADY LIKELY TO EXPERIENCE A SIGNIFICANT PICK-UP IN ITS GROWTH RATE IN 1978. A "MODERATE STIMULUS" IN THE COMING BUDGET WOULD, IN THE BANK'S VIEW, BE COMPATIBLE WITH MAINTAINING "DUE CONTROL OF THE MONETARY AGGREGATES." THE NEED FOR CAUTION STEMS FROM THE BANK'S CONCERN ABOUT THE VULNERABILITY OF BRITAIN'S EXTERNAL PAYMENTS POSITION. IT URGES THAT THE STIMULUS TAKE THE FORM OF REDUCED DIRECT TAXATION RATHER THAN INCREASED PUBLIC EXPENDITURE.

3. IN THE BANK'S VIEW, THE CURRENT ACCOUNT "MAY BE IN SURPLUS" IN 1978 BUT THERE ARE REASONS FOR DOUBTING FURTHER IMPROVEMENT IN 1979. IN BOTH 1978 AND 1979, SOME DETERIORATION IS EXPECTED IN THE TERMS OF TRADE EXPRESSED IN VOLUME TERMS BUT NOT IN VALUE TERMS. THIS WOULD RESULT FROM THE CYCLICAL IMPROVEMENT OF THE UK ECONOMY RELATIVE TO THE REST OF THE WORLD COUPLED WITH THE SECULAR TREND TOWARD INCREASING IMPORT PENETRATION WHICH

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CHARACTERIZES THE UK'S NON-OIL TRADE.

4. THE BANK STRESSES THE NEED TO MAINTAIN A CURRENT ACCOUNT SURPLUS TO AVOID UNSETTLING INTERNATIONAL CONFIDENCE DURING A PERIOD WHEN BRITAIN MUST REPAY SUBSTANTIAL FOREIGN DEBT (SOME OF WHICH "MAY NO DOUBT BE RESCHEDULED") AND IS LIKELY TO EXPERIENCE CONTINUING CAPITAL OUTFLOWS OF A STRUCTURAL NATURE.

5. IN THE BODY OF THE BULLETIN, THE BANK DESCRIBES THE NATURE OF ECONOMIC ACTIVITY IN 1977 AND RAISES SOME QUESTIONS ABOUT THE PERSISTENCE OF UNUSUALLY HIGH SAVINGS RATIOS AND SOME PUZZLING DEVELOPMENTS IN THE LABOR MARKET.

6. SAVINGS RATIO

CHANGES IN THE COMPOSITION OF SAVINGS ARE CITED AS A CONTRIBUTING FACTOR TO HIGHER SAVINGS RATIOS. THE BANK POINTS TO AN INCREASE OF ABOUT TWO PERCENTAGE POINTS IN THE PAST DECADE IN THE PROPORTION OF DISPOSABLE INCOME GOING INTO PENSION FUNDS AND LIFE INSURANCE COMPANIES. THIS WOULD ACCOUNT FOR ABOUT A THIRD OF THE RISE IN THE SAVINGS RATIO OVER THAT PERI-

OD. FURTHERMORE, IT IS LIKELY TO PREVENT A RETURN
THE SAVINGS RATIO TO PREVIOUS LEVELS.

7. LABOR MARKETS.

TURNING TO THE LABOR MARKET, THE BANK NOTES RISING

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LEVELS OF EMPLOYMENT AT A TIME WHEN OUTPUT HAS BEEN STAG-
NANT. IT NOTES THAT THE INCREASE WAS CONFINED LARGELY
TO WOMEN WORKING IN SERVICE INDUSTRIES. THE CORRESPOND-
ING NEGATIVE IMPACT ON PRODUCTIVITY CAUSES THE BANK TO
ASK WHETHER CYCLICAL PRODUCTIVITY GAINS MIGHT BE DAMPENED
AS OUTPUT RECOVERS. HOWEVER, IT ADDS THAT IF LABOR
HOARDING IS THE EXPLANATION FOR LOW PRODUCTIVITY, THEN
PRODUCTIVITY COULD REBOUND STRONGLY.

8. UNEMPLOYMENT DATA HAS ALSO CONCERNED THE BANK. THE RECENT MARGINAL DECLINE IN JOBLESS TOTALS IS ALSO INCON-
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SISTENT WITH LEVELS OF OUTPUT. THE BANK BELIEVES THAT THE DATA MAY BE REFLECTING INADEQUATE SEASONAL ADJUST-
MENT FACTORS AND SHOULD NOT BE ACCEPTED AS INDICATING A FIRM TREND TOWARD REDUCED UNEMPLOYMENT.

REQUIREMENT IS LIKELY TO BE LESS THAN 6 BILLION POUNDS IN FY 77/78 COMPARED WITH THE MOST RECENT (OCT. 31, L977) HMG FORECAST OF 7.5 BILLION. WHILE NOT PROJECTING ANY FIGURE FOR FY 78/79, THE BANK ESTIMATES THAT PUBLIC SEC-
TOR EXPENDITURE SHOULD BE ABOUT 4 PERCENT ABOVE FY 77/78 LEVELS IN REAL TERMS.

10. MONETARY AGGREGATES.

THE BANK POINTS TO A 19P/C JUMP IN THE RATE OF IN-
CREASE IN M1 OVER THE FIRST 9 MONTHS OF THE BANKING YEAR BUT EXPECTS LOWER INTEREST RATES TO PRODUCE A SUBSTANTIAL DROP IN THIS FIGURE IN COMING MONTHS. STERLING M3 IS STILL BEING AFFECTED TO SOME EXTENT BY CAPITAL INFLOWS AND THE IMPACT OF "MATURING LONGER-TERM SWAPS WHICH HAD BEEN ARRANGED TO MEET HEAVY YEAR-END COMMITMENTS."

11. OIL REVENUES.

OIL EXPORTING COUNTRIES' REVENUES WERE ESTIMATED AT 32.3 BILLION DOLLARS IN THE FOURTH QUARTER, UNCHANGED FROM THE THIRD QUARTER. TOTAL OIL REVENUES FOR 1977 WERE PUT AT 129.1 BILLION DOLLARS, A RISE OF 15.9 BILLION FROM THE 1976 TOTAL OF 113.2 BILLION DOLLARS.

THE BANK ESTIMATES THAT OIL EXPORTING COUNTRIES' SURPLUSES DECLINED SLIGHTLY IN 1977 TO A PROVISIONAL 33.0 BILLION DOLLARS FROM 35.8 BILLION IN 1976. THE FOLLOW-
TABLES SET OUT THE LATEST DATA:

BILLIONS DOLLARS 1976 1977 4TH

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YEAR	YEAR	1ST	2ND	3RD	QTR
UNITED KINGDOM	(A)	QTR	QTR	QTR	(A)
BRITISH GOVERNMENT					
STOCKS	0.2	-	-0.1	-0.1	0.1 0.1
TREASURY BILLS	-1.2	-0.2	-	-0.1	0.2 -0.3
STERLING DEPOSITS	-1.4	0.3	0.2	0.3	-0.2 -
OTHER STERLING IN-					

VESTMENTS (B) 0.5 0.4 0.1 0.1 0.1 0.1
 BRITISH GOVERNMENT
 FOREIGN CURRENCY
 BONDS - 0.2 - 0.2 - -
 FOREIGN CURRENCY
 DEPOSITS 5.6 3.4 2.0 1.4 0.5 -0.5
 OTHER FOREIGN CUR-
 RENCY BORROWING 0.8 - - - - -
 UK TOTAL 4.5 4.1 2.2 1.8 0.7 -0.6
 UNITED STATES
 TREASURY BONDS AND
 NOTES 4.2 4.3 1.0 1.0 0.7 1.6
 TREASURY BILLS -1.0 -0.8 1.5 -1.0 0.2 -1.5
 BANK DEPOSITS 1.6 0.4 0.2 -0.2 0.1 0.3
 OTHERS (B) 7.2 5.0 1.2 1.4 1.3 1.1
 US TOTAL 12.0 8.9 3.9 1.2 2.3 1.5
 OTHER COUNTRIES
 BANK DEPOSITS 7.0 8.5 2.0 3.5 0.5 2.5
 SPECIAL BILATERAL FACILITIES
 AND OTHER INVEST-
 MENTS (B) (C) 10.3 11.2 3.5 2.5 2.6 2.6
 TOTAL OTHER 17.3 19.7 5.5 6.0 3.1 5.1
 INTERNATIONAL ORGANIZATIONS
 ORGANIZATIONS 2.0 0.3 0.1 0.1 0.1 -
 GRAND TOTAL 35.8 33.0 11.7 9.1 6.2 6.0
 (A) - PROVISIONAL; (B) INCLUDES HOLDINGS OF EQUI-
 TIES AND PROPERTY, ETC.; (C) INCLUDES LOANS
 TO LESS DEVELOPED COUNTRIES.

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TAGS: EFIN, UK
To: TRSY STATE
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